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Auditor's Presentation to the Joint Standing Committee on Health and Human Services, January, 2006

Maine Office of the State Auditor

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Introduction

- Each year the Maine Department of Audit performs the Single Audit of the State of Maine, qualifying the State to receive over \$2.6 billion (FY 2004) in federal assistance for specific grants and programs. We audit programs that comprise 91% of that amount.
- Audit examines the State's financial statements, internal control systems and compliance with laws and regulations. We also report on individual federal programs, auditing 25 for FY 2004.
- Audit identifies instances of noncompliance with federal program/ grant requirements as well as weaknesses in internal control over the management of the programs/grants.
- These issues are reported as audit findings and are included in the Single Audit Report. See Executive Summary A-3 and DHHS Summary E-45.

Delivery of Single Audit Report 2004

- I have made it a priority of my Administration as State Auditor to improve the communication of audit findings to all interested parties. I will meet with the various Committees of Jurisdiction to report and discuss those findings relating to the policy areas covered by the Committees.
- Field work for the Financial Statement Opinion was complete as of March 18, 2005: it was reported April 15, 2005, 51 days earlier than the prior year.
- The 2004 Single Audit Report was complete as of May 16, and issued June 30, 2005, 30 days earlier than the previous year.
- A copy of the 2004 Single Audit Report was delivered to the Governor, each State Legislator, the State Law Library, each Commissioner, agency accountants, and the federal government.
- Audit reports for the years 2000 – 2004 are posted on the internet at:
<http://www.maine.gov/audit/reports.htm>.

To personally communicate findings, the State Auditor met with:

- The Governor,
- President of the Senate,
- Speaker of the House of Representatives,
- Commissioner of Health and Human Services, and
- The Commissioner of Administrative and Financial Services

General Summary

- Audit issued an unqualified opinion on the **financial statements** effective March 18, 2005: the State of Maine's financial statements fairly present its financial position and the results of operations for the year ended June 30, 2004.
- We **qualified our opinion on compliance** with federal regulations for 3 programs: Foster Care, Social Services Block Grant and the Child Care Cluster. Why our opinion was qualified:

■ Child Care Cluster: reporting (04-40)

■ Foster Care: Title IV-E: eligibility (04-43); management of federal cash/allowability (04-45); reporting (04-46)

■ Social Services Block Grant: earmarking (04-50); Allowability (04-62)

■ We audited 25 programs in FY 2004 that covered \$2.4 billion in federal assistance, 11 in DHHS, which receives and expends over \$1.8 billion. Of 25 programs audited, 22 were in compliance in all material respects, 3 were not.

■ Audit identified 77 total federal findings: 76 were control deficiencies, with 49 at DHHS. The State administers over 300 different federal programs, 82 of them at DHHS.

■ \$17.9 Million of the \$18.7 Million in questioned costs in the Single Audit for FY 2004 are in DHHS programs.

Dialogue with DHHS, DAFS & OSC

■ Audit is responsible for following-up on significant audit findings. To explain concerns in detail, the State Auditor has met several times with the:

Commissioner of Health and Human Services

Commissioner of Administrative and Financial Services

New Internal Audit Director at DHHS

New Internal Audit Director at OSC (Office of the State Controller)

The State Auditor asked for regular meetings with the DHHS Commissioner and staff in the summer of 2005. Great progress was made. Dialogue moved us forward in a positive manner. Example: detailed discussion of specific convoluted account structures, cost allocation plan, financial management issues.

Commissioner Nicholas clearly directed staff to provide solutions, not excuses. The Commissioner of DAFS added strength, vision and coordination to this problem-solving. Culture change began to grow. Resolving problems identified in the FY 2004 Single Audit is clearly a top priority for Governor Baldacci and his administration. The State Auditor will meet with the panel advising him on a new commissioner to identify qualities needed to continue this growth and culture change.

Summary of Significant Problem Areas

- 81 findings reported in total, 77 of which are federal findings.
- 19 ---Financial management & reporting
- 4---Financial statement
- 5---Eligibility
- 13---Allowability
- 6---Information systems, 4 at DHHS
- 13---Management of federal cash
- 8---Subrecipient monitoring
- 13---Other compliance issues & errors

DHHS Findings by Known & Likely Questioned Costs FY2004 Single Audit

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost*	Likely Q'd Cost**
04-45	Foster Care	Program Accounting & Cash Management Operations	Federal draws in excess of reported expenditures	03-59	\$12,400,000	
04-62	Various	Program Accounting & Cash Management Operations	Costs charged twice, cost allocation plan errors not detected	03-71	\$1,979,288	
04-50	SSBG	Community Services Center	Funds not spent in accordance with earmarking requirements	03-68	\$1,900,000	
04-44	Foster Care	Program Accounting & Cash Management Operations	Information system costs not charged in proportion with benefits received	03-60	\$530,340	
04-46	Foster Care / Adoption Assistance	Program Accounting & Cash Management Operations	Insufficient internal controls to ensure accurate reporting	03-61	\$420,224	
04-30	Immunization	Program Accounting & Cash Management Operations	Inadequate controls procedures over reporting/period of availability		\$390,085	
04-36	Child Support	Program Accounting & Cash Management Operations	Transfers for program services in excess of costs claimed	03-47	\$101,331	
04-52	Medicaid	Family Independence/Technology Services	Medicaid claims paid on behalf of ineligible recipients/inadequate controls		\$40,266	\$7,900,000
04-43	Foster Care	Child & Family Services	Payments made on behalf of ineligible recipients	03-56	\$38,267	\$617,939
04-47	Adoption Assistance	Child & Family Services	Payments made to ineligible clients		\$34,831	\$202,444
04-42	Foster Care	Child & Family Services	Override of controls to ensure that costs are claimed correctly	03-58	\$19,196	
04-41	Foster Care	Child & Family Services	Duplicate costs paid		\$18,999	
04-55	Medicaid	Medical Services/Child & Family Services	Unallowable case management claim payments		\$7,462	\$10,816,331
Total					\$17,880,289	\$19,536,714

*Known questioned costs are specifically identified instances of non-compliance.

**Likely costs are projected according to federal regulations from a sample.

Conclusion

■ Audit completed fieldwork on the FY 2005 financial statements on December 9, 2005, and the financial opinion should be rendered before the end of January, in record time.

■ Audit is on target to complete the Single Audit for FY 2005, earlier than ever before.

■ The Department of Audit performed several reviews in support of the Single Audit in 2005: ACES, purchasing cards, and cash.

■ With audits being on completed years, expect some findings in FY 2004 to continue into FY 2005.

■ Audit will continue communication with DHHS to identify systemic problems for solution.